

Ponzi Schemes



Ponzi schemes take many forms, but the distinguishing feature of this type of operation is paying off early “investors” with money coming in from new victims. A Ponzi scheme may operate for some time before the promoter “pulls the plug” – that is, either disappears with all the investments or reveals the bad news those investments have gone “sour.” A major factor in the eventual collapse of these schemes is the fact that there is no significant source of income other than that derived by luring in new investors.

The principal swindlers in many Ponzi schemes attract their prospective victims by radiating an aura of confidence and the assurance of wanting to share the wealth. In some cases the promoters even believe that their investment schemes will work, as they have discovered some kind of magic formula overlooked by professional financiers. Then, when they realize there are hitches but that they could profit enormously by using other people’s money, they invent a company and make all kinds of exorbitant claims.

One of the startling facts about the Ponzi scam is that, although it has been around for nearly eighty years in one form or another and is one of the easiest swindles for regulators to detect, it is still prevalent today. The driving force behind the continuance of the Ponzi has been the introduction of new technologies and the many often-bewildering new investments available to the public. In this crowded and fast changing market place, Ponzi promoters have an increasing number of “costumes” at their disposal with which to dress up their schemes and shield them from ready detection.

Often the initial participants in a Ponzi scam are rewarded with handsome returns on their investment, sometimes at interest rates that are astonishingly higher than the promoters originally promised.

However, many of these people are so elated with their success that they turn right around and reinvest their money in the same ventures, often losing almost everything in the end.

Here are basic rules to follow, offered by the BBB and NASAA, to avoid getting cheated by the Ponzi operators of the financial netherworld.

1. Ignore promises of high, guaranteed profits, the trademark of the Ponzi scam. Legitimate investment plans not only address themselves conservatively to any discussion of profits but also rigorously avoid any promise of specific percentages over any given period.
2. Avoid any kind of investment that is not described clearly, in detail, and without hedging. Swindlers often declare that the specifics are “too technical” to describe in layperson’s language. They may also avoid mentioning names on the grounds that the geniuses behind the plan “wish to remain anonymous.”
3. Check out the promoter’s credentials and background carefully through reliable sources that can alert you to any illegal act or questionable practices.
4. Obtain information about the promoter and the proposed offering from your state securities agency and local Better Business Bureau. If you detect any violations of the law or securities registration, report your suspicions to these organizations or other appropriate agencies.
5. Demand detailed information *in writing*. Not only are you well within your rights to ask for documentation, but you will have every right to be concerned if the promoter is reluctant or hedges by asserting that such data is “confidential” or “classified.”

6. Verify the claims and promises made by the promoter. Swindlers often try to imply that an offering is registered with a government agency or has the stamp of approval of a particular trust company. Victims too often accept such claims at face value and fail to verify the assertions.
7. Ask to visit the promoter's office or tour the plant where the "fabulous new product" is being manufactured. Suspicion should quickly set in if you are told that the office is being "renovated" or that the plant is "under tight security" and hence off-limits to everyone except employees.
8. Back away from plans that offer "deferred" payments, where you have to invest today but will not see any products or evidence of ownership until the future. If, after investing, you are pressure into re-investing or letting your profits "roll over," investigate at once.
9. Be on the alert for any kind of unbusinesslike conduct on the part of the promoters, including an inability to reach them through phone calls or by mail. The farther along the road to disaster a Ponzi plan goes, the more impossible it becomes for victims to obtain information or get through to their promoters.